

Home Mortgage Disclosure Act Public Hearing, July 15, 2010
Panel Two: Q & A part 2

Leonard Chanin:

Just one final question in terms of analysis of the data, use of the data do you use data for a very small institution, that is, a small reporter. So if a lender reports let's say 20 loans, do you find that helpful or useful in terms of your analysis or is it really only somewhat larger institutions that you find useful -- aside from discrimination analysis in terms of data analysis?

Jeffery Dillman:

I mean in terms of discrimination, obviously it's very hard to draw many or any conclusions from that amount of data. In terms of, you know, their market presence and what areas of the market they may be, you know, active in it may be a little bit of use for that, but in general we need, you know, a lot of loans or decisions at least before we can make any conclusions.

Adam Rust:

I think this is a little bit interrelated to having subsidiaries report separately. I mean Wells Fargo has more than 60 reporting agencies, and I think National City had about that too. And so, yeah, you can have a situation where North Carolina loans will only be 20 loans it still matters especially if you're trying to figure out what Wells Fargo's doing.

Leonard Chanin:

So if you're a larger institution with affiliates or subsidiaries but if you're a single institution with a single office or one branch maybe not as much so or even then it might be helpful.

Adam Rust:

It could be helpful when the small bank tries to sell itself, you know, a few years down the line that could be really helpful.

Leonard Chanin:

Okay, thank you.

Ira Goldstein:

So I have enough questions for the rest of the day.

[laughing]

Ira Goldstein:

I'm going to ask the data question a little bit differently and that is part of the issue with a lot of these fields is that they give either false positives or false negatives, right? A false positive is a problem for the institution because they then are put in a posture where they have to produce lots of information and defend themselves against claims of discrimination or some other related practice, and false negative from the regulators perspective is you miss it completely. So the

question is, if we think about the fields that have been proposed, recognizing that we may not get them all into the final regulation, are there those that you think would be uniquely important to be able to sort of weed out the false positives and negatives?

Stella Adams:
Okay, I'll do it.

[laughing]

Stella Adams:
I think it's critically important to have debt-to-income, loan-to-value, and combined loan-to-value and credit score. I think that if we didn't get anything else, those four, age, of course, as well.

A. James Elliott:
I would include all of those but would emphasize the debt-to-income.

Adam Rust:
I think with loan-to-value, you could have people who are using a piggy back product, so we think there's a 20% down payment but really there's not.

Ira Goldstein:
So would the combined take care of that for you?

Adam Rust
Yeah.

Ira Goldstein:
Okay.

And could I ask one thought on the debt-to-income ratio, do you mean, you know, just that portion that is related to the housing cost or, you know, a full backend debt ratio? I mean the whole thing or just the housing portion?

A. James Elliott:

I think the primary importance would be the housing portion of it. If you had to choose -- most originators are going to calculate both.

Stella Adams:
I would think the back -- for me, the backend is, in terms of determining whether it's reasonable, you know, whether this is a sustainable loan, you really need to know what the backend ratio is, because if the housing ratio is 28% but I've got 70% on the backend -- I'm not gonna make that mortgage. At some point the camel's gonna break, and that mortgage is not sustainable. So we want to make sure, we want to look at the underwriting of these loans and see where there is, you know, and that backend to me is - having both is really important but if you only have the

housing ratio, and it's not taken into account the other debt then it's not sustainable. And what we really want is a sustainable market that's safe for the borrower and the investment community.

Ira Goldstein:

In terms of the fields that get reported there is already a model out there that's being used in HMDA where some of the fields are reported to the public and some are not, you know, the dates, for example, the date of application and the date a decision is made. That's already collected, it's already in the database it's just not reported to the public. If you think about some of the fields that are proposed, I recognize for research purposes they may not be as helpful if they're in that private section, but are there those that you could say I'm willing to let go of them in the public section as long as the regulators are getting these things because they're so important to us?

Jeffery Dillman:

If I look at the three main that I think we've been talking about all morning in terms of debt-to-income, loan-to-value and credit scores, I think those need to be made available to the public in some manner whether it's completely public or whether it's, you know, people [inaudible] researchers applying to have access to it in a way that's, you know, not only limiting it to, for example, academics or certain, you know, not limiting it too much. I mean, I would be willing if there's some public access for research purposes, but that would include community groups, you know, CDCs, fair housing organizations, private consultants, and others to have access. I think I would be okay with that level of privacy, but I do think that some of that needs to be public, that right now there's no trust. I mean, you know, people don't trust the lending industry and people don't trust the regulators, and providing this information, I think, will help both, and it will help the trust of the industry, hopefully, and help clean up some practices that were occurring and that, I think, are still occurring in some areas but that will also provide trust to the regulators. I mean the idea of sunshine being a disinfectant is accurate, and that we need that to come not just to the regulatory agencies, because sometimes for whatever reason they're not doing, you know, enough of a job everywhere, and so we need to have it elsewhere in addition.

Susan Wachter:

I think that's the genius of HMDA that it is public and that needs to continue to be so. But as an extension to what I said earlier the private -- the property locator, the address indicator does not need to be made public. It would be useful to have it census boundaries are set to change over time.

Ira Goldstein:

In terms of the credit scores themselves this panel and the other talked about the differences in the models of how credit scores are created and some thoughts were given to broad categories and then, Adam, you mentioned the Boston Fed Study where they did, you know, decades ago now, they did create sort of components of a credit score and said, well, you know, do you have prior mortgages now delinquent, do you have utilities now delinquent and prior bankruptcy, there were a variety of things. Could you think about whether or not that would work in the same way or even, perhaps, even more useful than a credit score or which could very literally, institution by institution or even within an institution? And if so are there particular components that you'd say, well, it'd be great -- these are the dispositive ones, the bankruptcies, the mortgages

that were delinquent, whatever they would be, I'll leave that to you. You guys are the experts [inaudible].

Adam Rust:

So I think thin file's going to be a question that could be a category. It doesn't have to be complicated in its interpretation. That could be really useful how different banks are responding to those kinds of applications.

Susan Wachter:

In a sense what you're doing is backwards engineering what the scores are, and while I think that's a separate useful exercise, I actually also think it's extremely important to have the scores, and it's not an easy problem to resolve, I recognize, and I don't know the solution, but that's what is used by lenders.

Stella Adams:

I just recently looked at a mortgage backed security where people who had 800, 815 credit score, there were five loans. They had a 9% interest rate. Their CLTB was at 84%. Lower on this, in the mortgage backed security is telling me this. At 720 there were, like, 113 loans. That interest rate was 8%. Remember I said 9%. The combined loan-to-value was about the same, and the credit score, so the other indicators which were in this mortgage backed security, challenged me to say, why are these people paying more, and so that's -- I don't care how you break it up, but I want to be able to find those five, and figure out what's going on with their loans. And they weren't jumbo loans I did look at the -- it didn't have any of them in there in this particular group. And so those five people, I wanted to know who they -- what they looked like. Were they women, were they minorities, because I had all the factors. I wasn't operating in the blind. Except the one thing I didn't have were the HMDA-related materials related to race, you know, sex, and the protected classes. I didn't have that third piece in that mortgage backed security, but I had all the other elements, and there was a red flag around that. So I need to have it striated in some way where I can then see that and say what's going on.

Jeffery Dillman:

With regard to credit scores I don't want to over simplify it too much. I think we might complicating it more than necessary. I mean the vast majority of lenders pull credit reports and get credit scores for borrowers in the underwriting process, and they use, even though they might pull multiple scores and create proprietary scores, you know, they use some score. I mean they're making a decision using some score. In fact, when we present our research they say, well, you don't know what the credit score is, you know, that's another variable that would explain these disparities. Have them report the credit score they're using for the, you know, whatever percentage of them is, which is a very high percentage, they're using a credit score. I mean I think not to over simplify but they are using something, they're using a score and that's what we should be getting.

A. James Elliott:

Of course your major problem is defining what is the credit score so that you're going to get apples-to-apples comparison.

Ira Goldstein:

Good, to my next question. This one is for Susan in particular. Susan, I'm sensitive to the burden question, and you're in a university, and you have access to people who collect data for you on a regular and recurring basis on many different projects. Suppose I said to you, I need you to go into an institution, and they made 350 loans last year, and here's the box of those loan files or the 5 boxes of those loan files, and I want you to pull what amounts to a HDMA report for each one of them. Broadly speaking how long would it take?

Susan Wachter:

I have no idea, but if you're asking the burden of HMDA for institutions on an ongoing basis is that the --

Ira Goldstein:

Yeah, a gentleman this morning talked about, you know, he's from a small institution there's 300 or so loans that he made in a given year. I guess I'm saying that I've been involved in these investigations before when I was at HUD. You go in you see there's 300 loan files, there are probably four, five, six boxes of paper, what would it take to extract the basic HMDA fields out of those, let's say they're reasonably kept files?

Susan Wachter:

Not to not directly respond, but I think the purpose of your question is asking, is this burdensome for those who are providing loans who are smaller and have less kinds of scale. But on the other side of that it seems to me that there are servicers, data gathering operations, who will provide services electronically to going forward and paper records going back. Legacy issues, of course, are a whole other matter. But going forward they overcome some of these issues of economies scale.

Ira Goldstein:

I guess I'm not asking is it burdensome. I assume there is some burden associated with collecting data I'm just trying to quantify the burden a little bit.

Susan Wachter:

And it seems to me that if the data are given in electronic fashion initially, then we going forward over time understand that we'll soon be able to borrow using our PDA's.

Ira Goldstein:

Not me. Did anybody else have any experience -- commissioner going encode data when you do these investigations, and you have to learn the files and what your files begin with, right? So --

Steven Antonakes:

There is certainly a burden aspect that we have to be conscious of and, you know, not all banks are created equal. And if you look at who controls the vast majority of the mortgage market, it is the largest money center banks in the country. And the burden for them -- the regulatory burden for the community banks and the credit unions -- is so significantly different, and a burden that I might add that is only going to get worse in the short-term if not the long-term. So we have a choice, really. You can risk all regulation to a better extent and insure that we still have a diverse

banking system, or you can ignore it and we're going to have a European style dozen banks controlling the market in the next 20 years, that's the choice. So you've got to figure out how to better do it. Sure, improvements in technology are going to reduce some of that burden over time. It's a lot easier now to collect this data than it was 20 years ago, but not every bank is on an electronic platform at this point in time. Not all the services are outsourced, and you have to question what the value is, and should the burden be the same for someone making 30 mortgage loans a year versus someone making 30,000.

[Background noise]

Ira Goldstein:

In terms of the public release of the data, Jeffery, you mentioned the timing of it and other people have mentioned sort of the access to it, the difficulty of access. And the gentleman from the first panel talked about, you know, grabbing these things as PDF files and the extraordinary burden of ripping it out, essentially, and creating a database out of it that you can then analyze. There are some models out there fairly simple models like the Bureau of Labor Statistics. You can go on and get time series data about unemployment parsed out by different categories, very analogous to the kinds of data that are in HMDA. Do you have some thoughts that you could give to the Federal Reserve about how you could do that or what it might look like to make it easier for the public to access it? Again, it seems to me how you want institution-by-institution for the way you've described it. You do as well as the aggregate for all the institutions together.

Jeffery Dillman:

Right, well, I mean I think it should be searchable. I think the census site is also potentially another model although it's much more data and, you know, we use that in a lot of our research and that could be very unwieldy at times but you should be able to search by institution, by geography, and drill those down, you know, I mean even starting from nationwide to state to MSA, counties, cities, even down to census-tract levels. But you should have, you know, basically pull-down menus that would allow you to, you know, perform a search to get the data down to a certain level, and it may be because of privacy concerns that at some level something would not be reported as census would do if you try to get data at a certain level of a particular income or some other things when you get down to a very small geography. But it should be able to have all of those variables accessible through a series of menus. I think the census -- I'm not as familiar with the labor statistics -- but a census study would be a very good model but have that available. And then to have it be able to be outputted in common, you know, database spreadsheet formats as well as in a PDF format so that it can be taken and manipulated further through other means.

A. James Elliott

I know our emphasis here is primarily on use by the public but I'd encourage the promptest availability to other regulators of this information, so that state banking commissioners and the OCC get it as quickly as possible on an individual institution basis. I think it could be incredibly helpful to them.

Susan Wachter:

I agree I think there's some element of speed for all but speed in particular for regulators. And there might be the ability to have data that is not completely corrected that can go back and be corrected, but is available immediately to regulators.

Ira Goldstein:

Unemployment is constantly corrected, right?

Susan Wachter:

Exactly.

Ira Goldstein:

So.

Stella Adams:

I would just love to have it in a searchable pattern. Where now, I have to go print out ten pages of PDF pages to find comparable low- and moderate-income census-tracks or upper-income census-track, one in a white neighborhood, one in a black neighborhood. The data's there but I've got to scroll through 50 different sheets trying to find the -- trying to do the match pair of the communities to see if they're getting services, you know, are they getting the same amount of loans, are they getting the same treatment by the institution where if I could just search upper incomes, census tracks and spread them out on a spreadsheet it would make my life so much easier.

Ira Goldstein:

So my last question for commissioner. I read your testimony. I was struck by the fact that you had this demonstrated observation that the HMDA data was flawed significantly in terms of what was reported and the quality of the reporting. What I was wondering was whether or not you had or if your department had taken the step of trying to go back to that institution's regulator and report it as a reporting violation and what if anything came out of it?

Steven Antonakes:

So I guess the question as I understand it was, were we engaging in the case of non-bank lenders HUD in terms of these issues. And the short answer is no, because we hold the license, and we can require a non-bank lender to comply with state and federal laws and frankly, you know, everyone has a lot of work these days, and the most expedient measure in our view was to take enforcement action on our own right. A public enforcement action, complete transparency, everyone can know about it, prompt resubmission of the data, stronger internal controls, and a significant fine, which we have found is sometimes necessary to get folks' attention and generally results in better submission in the future.

[Background noise]

Governor Duke:

And since I didn't get a chance to thank you for joining us I'll do that now and thank the panel. Let me give you one last opportunity, if something has occurred to you during the questions,

something you didn't get asked, something you didn't get a chance to say, if there's any last comments you'd like to make.

Stella Adams:

I just want to reemphasize again that the HMDA data has three purposes. It's to determine whether we have reasonable terms on loans. It's to help the public and government determine where to put public dollars, and is to fight discrimination. But it also, in doing this, can affirmatively further fair housing and affirmatively further when we find that there is disparity by race or gender or age in services in the lending services through HMDA. Even if we don't find that it was "discrimination," but we find that there is a disparity, we have a duty to affirmatively figure out through some kind of special purpose vehicle or through analysis and research why that exists and to get an entry way into the highway of access to capital on reasonable terms and conditions. It is not appropriate to say, well, they're riskier, is higher price, well, it wasn't discrimination, it was this, but 85% of African Americans have credit scores that are below what you can get a loan for today. So we're going to lock 85% of African Americans out of the lending market because of their credit score, when we know that a significant number of them had the credit score, when the reality is that it was the layering of risk not the credit score that was the factor. So we have to -- it's useful not just to be put on a shelf, but we really need to use it to create new opportunities and to create equal access for everybody.

Jeffery Dillman:

I guess I would just emphasize, again, not to repeat myself too much but the importance of the public disclosure of the data and having access to the broader public. You know I was looking back at a order approving and acquisition issued by the Federal Reserve Board and it might be boiler plate but the Board stated that it recognized that HMDA data alone provided an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing related lending and provide only limited information about covered loans. And I think the importance that the Board needs to consider is how to make a more complete picture of lending by an individual lender in a community, so that the public can have confidence both that the Board and other regulators are doing their job, and that the lender is, in fact, lending in consistent with antidiscrimination statutes, with the Community Reinvestment Act, and other federal and state laws.

A. James Elliott:

I would encourage you to have non-depository -- non-portfolio originators on some of your other panels. I think that would be some information that would be helpful. I think it is probable now that Dodd-Frank is going to pass certainly in some form. It's going to require disclosures. And let me encourage that those disclosures actually be useful, and what I mean by that -- each of us gets once or twice a year an envelope that says, includes important account information. Okay, so we open it, we find 12 pages printed in a one font, which I refer to as the uniform illegible instruments act. If I were to ask the audience how many carefully read that, I suspect there would be no hands. If I ask how many scan it there might be a few, and if I ask how many throw it away it would be the vast majority. So now, Congress has said let's have disclosures, the regulators have said, oh, yes, and here are the kind of disclosures we want. Lawyers got paid big bucks to draw these things up, they were sent out to all customers and nobody read them. So if there are going to be disclosures, try to do it in a way that it's going to be useful. And as an

absurd example, if one of your concerns is enough income to sustain this loan, how about a bright yellow sheet of paper that says, if your take-home pay is less than X dollars a week you can't afford this loan? That would be a useful disclosure. Eight pages on one font is not going to help.

Adam Rust:

So I guess I want to emphasize that ease of use really matters and the loan level of reporting really makes a big difference. We didn't get any -- well, manufactured housing is a big deal in North Carolina, one-in-six households live in it. Most manufactured homes are still purchased with personal property loans. They're not mortgages, but they're homes, so I think it ought to be in the Home Mortgage Disclosure Act. And I think it's kind of inconsistent on how that's applied. Some people tell me it's in there, some people say it's not -- even within the Federal Reserve. And I think it should be clear what the case is with that. And I think the next big wave in data collection is geography. And I know that we shouldn't have XY's, you know, way too much to have an exact XY coordinate on a home, but it would be really helpful for if there was some sort of online interactive approach that it could be linked up with the Tiger Line Files and Census. It's really complicated to attach state, county, and census tract through, you know, leading zeroes and all these weird data techniques to get that Tiger Line data and then connect it, and it shouldn't be that hard. So I just think that's something going back to ease-of-use that really matters.

Susan Wachter:

I think that HMDA has, in fact, been instrumental in the revitalization of urban America and a reinvisioned HMDA along the lines that we are speaking about today could be instrumental in stabilizing housing finance going forward, and I thank you for inviting me to be part of this panel.

Governor Duke:

Thank you, and thanks to the entire panel for your comments. They are very helpful to us, and we appreciate you spending the time and most importantly putting your thought into it. Thank you.